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SUBJECT: ARGENTINA ECONOMIC AND FINANCIAL REVIEW, AUGUST
27-SEPTEMBER 3, 2009

¶1. (U) Provided below is Embassy Buenos Aires' Economic and Financial Review covering the period August 27-September 3, 2009. The unclassified email version of this report includes tables and charts tracking Argentine economic developments. Contact Econ OMS Megan Walton at WaltonM@state.gov to be included on the email distribution list. This document is sensitive but unclassified. It should not be disseminated outside of USG channels or in any public forum without the written concurrence of the originator. It should not be posted on the internet.

GOA EXCHANGES INFLATION-LINKED DEBT

¶2. (SBU) The Ministry of Economy announced September 1 that it will broaden the ongoing swap of inflation-linked debt for a new floating rate bond (the Bonar 2015) by adding as eligible securities the Boden 2014 and certain series of Guaranteed Loans that were not previously included, all of which total ARP 14 billion (\$3.6 billion). The GoA had previously launched on August 27 an offer to exchange up to ARP 8.3 billion (\$2.1 billion) of inflation linked debt for a Bonar 2014. In both offers, the GoA exchanges CER-adjusted bonds for a floating debt instrument that pays Badlar (the time deposit interest rate for deposits of ARP 1 million) plus a spread of 2.75 and 3.00 percentage points for the Bonar 2014 and the Bonar 2015, respectively. Both offers close September 7. With these exchanges, the GoA seeks to improve its maturity profile for the next two years, with GoA debt obligations of \$13 and \$12 billion due in 2010 and 2011, respectively.

RESULTS OF TAX AMNESTY AND CAPITAL REPATRIATION PLAN

¶3. (SBU) On September 1, President Cristina Fernandez de Kirchner announced that the GoA achieved better-than-expected results in the tax amnesty and undeclared-capital repatriation incentive plan that closed on August 31. The capital repatriation section of the plan had spawned a major debate over whether it facilitated money laundering. In an August 31 press interview, the former FATF President Antonio Gustavo Rodrigues indicated that Argentina's compliance with money laundering regulations will be assessed in November.

¶4. (SBU) According to AFIP (the tax authority equivalent to the IRS), the main results include:
-- About 35,789 individuals took advantage of the plan to legalize ARP 18.1 billion in undeclared funds, of which only 4% (ARP 725 million) came from abroad; [Note: The capital repatriation plan allowed undeclared capital held abroad by residents to be brought onshore after paying an 8% tax, which would be reduced to just 1% if the capital was invested in real estate or goods producing industries.]
-- Just under 170,000 companies and individuals took advantage of the tax amnesty plan, paying about ARP 14.7 billion in back taxes

and social security debt owed to AFIP;

-- The status of 330,547 previously informal workers was legalized.

¶ 15. (SBU) Some analysts criticized the results of the plan, saying that the repatriation of ARP 18 billion (USD 4.7 billion) paled in comparison to capital outflows of USD 23 billion in 2008 and USD 11.2 billion in the first two quarters of 2009. They note that this figure represent only 3% of the estimated USD 150 billion held abroad by Argentines. Also, the 330,000 workers whose status was normalized represent only about 8% of the informal labor market, according to private sources.

NOMINAL AUGUST TAX COLLECTION UP 4.2% Y-O-Y

¶ 16. (SBU) The GoA announced September 2 that August tax collection increased 4.2% y-o-y to ARP 25.3 billion (approx. USD 6.6 billion), below market expectations of ARP 26 billion and showing the lowest annual y-o-y increase since May 2005 (when it grew 2.6% y-o-y). The general economic downturn and the impact of the A/H1N1 flu virus outbreak in Argentina were the main factors behind the disappointing tax haul. The weak performance of tax collection raises questions about the GoA's ability to maintain a primary fiscal surplus in ¶ 2009.

PRIVATE THINK TANK: INDUSTRIAL PRODUCTION DOWN 2.5%

¶ 17. (SBU) The private think tank FIEL reported on August 26 that its industrial production index was down 2.5% month-on-month, seasonally adjusted in July. On a year-on-year basis, FIEL's industrial

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production index was down 9%, in clear contrast with the recent GoA statistical agency (INDEC) report that industrial production was down 1.5% y-o-y in July. Industrial activity fell 10.2% y-o-y, and all industrial sectors, except food production which grew 2.2%, also fell on a y-o-y basis. The sectors that contracted the most were automobile production (down 35.5% y-o-y) and base metals production (down 31.8% y-o-y). Despite last month's contraction, FIEL's data suggests that activity in the industrial sector has stabilized and that it might have started to rebound.

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